

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 20611 01 OF 02 221251Z
ACTION SS-14

INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 NSC-05
NSCE-00 FRB-03 CIAE-00 ONY-00 SSO-00 /036 W
----- 092259 /44
O 221239Z DEC 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 8982

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 20611

LIMDIS WITH DISTRIBUTION FOR S, C, D, E, P, EB, EUR,
S/P, TREASURY, NSC, FRB ONLY

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: SITUATION REPORT, DECEMBER 22

REF: (A) STATE 267168; (B) LONDON 20537

1. CHANCELLOR OF THE EXCHEQUER HEALEY REAFFIRMED THE PRINCIPLES OF THE GOVERNMENT'S APPLICATION TO THE IMF IN OPENING THE DEBATE ON HIS ECONOMIC PACKAGE IN THE COMMONS ON TUESDAY. HE ASSERTED THAT THE ALTERNATIVE OF EXCLUSIVELY REDUCING PUBLIC SECTOR EMPLOYMENT WOULD HAVE MEANT AN ADDITIONAL 500,000 UNEMPLOYED BY THE END OF 1977. HE NOTED THAT GOVERNMENT POLICY AIMED AT THE GRADUAL REDUCTION IN INTEREST RATES OVER THE NEXT TWO YEARS. HEALEY ADDED THAT WITHIN THE CONSTRAINTS OF THE ANNOUNCED ECONOMIC MEASURES IT WAS ESSENTIAL TO REDUCE THE BURDEN OF DIRECT TAXATION ON LOWER AND HIGHER INCOME LEVELS.

DESPITE THE FACT THAT 25 LABOR MP'S VOTED AGAINST THE CHANCELLOR'S PACKAGE, IT WAS APPROVED WITH A COMFORTABLE MAJORITY (219-51). THE CONSERVATIVES ABSTAINED,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 20611 01 OF 02 221251Z

WHILE MOST OF THE LIBERALS AND NATIONALIST MPS JOINED THE LABOR REBELS IN VOTING AGAINST THE MEASURES. (ADDING THE TWO TELLERS, THE TOTAL OF LABORITES IN OUTRIGHT OPPOSITION WAS 27.) SOME 20 LABOR MPS ALSO ABSTAINED, INCLUDING SOME MODERATES -- A CIRCUMSTANCE WHICH INDICATED WIDER UNDERLYING OPPOSITION TO THE CUTS.

HOWEVER, THE LEFT-WING TRIBUNE GROUP WHICH HAS AN ESTIMATED STRENGTH OF ABOUT 70 TO 80 MEMBERS WAS SPLIT, SINCE ONLY ABOUT HALF OF THEIR NUMBER VOTED AGAINST OR ABSTAINED. (APPROVAL OF THE GOVERNMENT'S PACKAGE WAS PARTLY OVERSHADOWED BY THE NEWS THAT REG PRENTICE, THE RIGHT-WING MINISTER FOR OVERSEAS DEVELOPMENT, HAD RESIGNED GIVING AS ONE REASON HIS DISAGREEMENT WITH THE GOVERNMENT OVER DISTRIBUTION OF SPENDING CUTS; HE PARTICULARLY CRITICIZED THE DEFENSE CUTS. HOWEVER, PRENTICE HAS LONG BEEN ESTRANGED FROM OTHER MEMBERS OF THE CABINET.)

2. THE PRESS NOTED THAT DR. EMMINGER, CHAIRMAN OF THE OECD'S WORKING PARTY 3, INDICATED THAT THE WORKING PARTY WOULD RECOMMEND THAT THE GROUP OF 10 MEETING TODAY PROVIDE THE NEEDED FUNDS TO THE IMF TO MAKE IT POSSIBLE TO MEET THE UK'S APPLICATION FOR THE \$3.9 BILLION CREDIT. IT IS EXPECTED THAT THE AMERICANS WILL PROVIDE MORE THAN \$1 BILLION, THE GERMANS ABOUT \$1 BILLION AND THE JAPANESE ABOUT \$735 MILLION. THE QUESTION OF FUNDING STERLING BALANCES WAS ONLY BRIEFLY DISCUSSED, A DECISION ON THIS PROBLEM BEING REFERRED TO THE JANUARY 10 MEETING OF THE BIS IN BASLE.

3. REVIEWING HMG'S LETTER OF INTENT TO THE IMF, THE AUTHORS OF AN INFLUENTIAL MONETARY BULLETIN (GREENWELL'S) CONCLUDE THAT THE DOMESTIC CREDIT EXPANSION (DCE) TARGETS WERE 1 BILLION POUNDS TOO LAX IN FY77 AND 2.5 BILLION TOO LAX IN FY78. ACCEPTING H.M. TREASURY'S CURRENT ACCOUNT FORECASTS FOR THOSE YEARS AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 20611 01 OF 02 221251Z

USING DATA SINCE 1964, GREENWELL'S ARGUES THAT AS THE CURRENT ACCOUNT MOVES INTO SURPLUS, SHORT-TERM CAPITAL WILL FLOW INTO THE UK. IN ADDITION TIGHT CONTROL OF THE MONEY SUPPLY WILL CREATE A SITUATION WHERE DOMESTIC DEMAND FOR MONEY WILL EXCEED SUPPLY, ATTRACTING A FURTHER INFLOW OF PRIVATE CAPITAL AS HAPPENED IN 1970 AND 1974. TO GREENWELL'S THIS SUGGESTS AN INFLOW OF PRIVATE CAPITAL OVER THE NEXT TWO YEARS RATHER THAN THE OUTFLOW THEY BELIEVE IS IMPLIED BY THE H.M. TREASURY FIGURES. UNDER THESE CONDITIONS, THE AGREED DCE CEILINGS WOULD RESULT IN M3 GROWTH OF 14.2 AND 17.2 PERCENT RESPECTIVELY IN FY77 AND 78. HOWEVER, GREENWELL'S ADMITS THAT THERE ARE TWO CLAUSES IN THE LETTER OF INTENT WHICH MIGHT FORESTALL THIS. CLAUSE 18 SEEMS TO PLEDGE THE GOVERNMENT TO AVOID UNEVEN GROWTH IN DCE THROUGH THE YEAR. SECONDLY, THERE IS A SUGGESTION THAT A FURTHER TAX INCREASE OR SPENDING CUT MAY BE MADE IN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 20611 02 OF 02 221251Z
ACTION SS-14

INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 NSC-05
NSCE-00 FRB-03 CIAE-00 ONY-00 SSO-00 /036 W
----- 092266 /53

O 221239Z DEC 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 8983

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 20611

LIMDIS

1978-79, AND THAT IN THIS CASE, THE DCE LIMIT SHOULD BE
BE REVISED DOWNWARD. WHILE SOMEWHAT REASSURED, THEY
URGE THAT IF THE CURRENT ACCOUNT DOES RECOVER STRONGLY,
THE MONEY SUPPLY TARGETS "SHOULD BE BROUGHT DOWN BELOW
THE UPPER LIMITS IMPLIED BY THE LETTER OF INTENT."

4. THE EXECUTIVE OF THE NATIONAL UNION OF MINERS WHICH
MET YESTERDAY (DECEMBER 2L) IN THE WAKE OF AN OVER-
WHELMING PITHEAD VOTE AUTHORIZING IT TO TAKE INDUSTRIAL
ACTION INCLUDING A STRIKE IN SUPPORT OF THEIR EARLY RE-
TIREMENT CLAIM (REF. LONDON 20260), DECIDED BY A LARGE
MAJORITY TO ASK THE NATIONAL COAL BOARD TO RENEW
NEGOTIATIONS ON JANUARY 5. THE MINERS' EXECUTIVE DID
NOT SET ANY TIMETABLE FOR INDUSTRIAL ACTION. IT IS ALSO
BELIEVED THAT THE COAL BOARD IS PREPARED TO IMPROVE ITS
OFFER, AND THERE IS REASON TO HOPE FOR A COMPROMISE
SOLUTION TO THE DISPUTE.

5. UNEMPLOYMENT: AFTER FAILING TO APPEAR IN NOVEMBER
BECAUSE STATISTICIANS REFUSED TO COLLECT THE DATA, A
MEASURE OF DECEMBER UNEMPLOYMENT BASED ON PARTIAL DATA
HAS BEEN PUBLISHED. THE DECEMBER ESTIMATES CONTAIN AN
ERROR MARGIN OF 20,000 IN EITHER DIRECTION. THEY SHOW
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 20611 02 OF 02 221251Z

THAT SEASONALLY ADJUSTED AND EXCLUDING SCHOOL LEAVERS, UNEMPLOYMENT ROSE 24,000 TO 1.277 MILLION (5.5 PERCENT) FROM AN OCTOBER FIGURE OF 1.253 (5.4 PERCENT). IN THE 12 MONTHS SINCE DECEMBER 1975, THE JOBLESS PERCENTAGE ROSE FROM 4.9 TO 5.5 AS 148,000 PEOPLE JOINED THE UNEMPLOYMENT ROLLS.

6. FOREIGN EXCHANGE AND FINANCIAL MARKETS: STERLING

CLOSED TUESDAY AT \$1.6805 INSIGNIFICANTLY BELOW MONDAY'S \$1.6815 CLOSE. THE TRADE WEIGHTED DEPRECIATION OF THE POUND SINCE THE WASHINGTON CURRENCY AGREEMENT WAS UNCHANGED AT 44.7 PERCENT. THE POUND OPENED TODAY AROUND \$1.6835.

THE BANK OF ENGLAND GAVE LARGE ASSISTANCE TO SEVERAL DISCOUNT HOUSES ON TUESDAY. IT LENT A LARGE AMOUNT FOR EIGHT DAYS AT THE MINIMUM LENDING RATE WHICH IS WIDELY REGARDED AS A SIGNAL THAT THE BANK WILL ACCEPT A 1/4 PERCENT REDUCTION IN THE MINIMUM LENDING RATE AT FRIDAY'S TREASURY BILL AUCTION, BUT NO LARGER REDUCTION.

GILT SALES WERE VERY STRONG ON TUESDAY AS THE 15-1/2 PERCENT 1998A TAP WAS EXHAUSTED, AND SUBSTANTIAL SALES OF THE SHORT TAP WERE MADE. IT IS ESTIMATED THAT 150 MILLION POUNDS OF THE LONG WERE SOLD AND 100 MILLION OF THE SHORT. CHANCELLOR OF THE EXCHEQUER HEALEY REMARKED IN TUESDAY'S PARLIAMENTARY DEBATE THAT 4 BILLION POUNDS OF GILTS HAD BEEN SOLD NET OF REDEMPTION DURING THE PAST THREE MONTHS.

EQUITY PRICES CONTINUED TO CREEP UPWARD ON TUESDAY, AS THE FINANCIAL TIMES INDEX OF 30 ORDINARY INDUSTRIALS REACHED 337.8, UP FROM MONDAY'S 337.3 AND FRIDAY'S 334.4. (THE FIGURES REPORTED PREVIOUSLY FOR MONDAY AND FRIDAY WERE WRONG THE FT ADMITS AN ERROR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 20611 02 OF 02 221251Z

OF CALCULATION HAD SLIPPED IN.)

SPIERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC REPORTS, DEVELOPMENT LOANS, DEVELOPMENT BANKS, ECONOMIC CONTROLS, CURRENCY CONTROLS, ANTIINFLATIONARY PROGRAMS, UNEMPLOYMENT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 22 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON20611
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760469-0787
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761221/aaaaarto.tel
Line Count: 216
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: 76 STATE 267168, 76 LONDON 20537
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2004 by GarlanWA>; APPROVED <13 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SITUATION REPORT, DECEMBER 22
TAGS: EFIN, UK, IMF, (HEALY, DENIS)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006